

**AR-WE-VA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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AR-WE-VA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Judy Gronau	President	2005
Della Osbourne	Vice President	2006
Jeffrey Luetje		2007
Lanice Kock		2006
Alan Druivenga		2005

(After September, 2005 Election)

Jeffrey Luetje	President	2007
Lanice Kock	Vice President	2006
Mike Leahy		2008
Della Osbourne		2006
Beth Leichti		2008

SCHOOL OFFICIALS

Leonard Griffith (resigned April, 2006)	Superintendent
Kurt Brosamle	Co-Superintendent
Dana Kunze	Co-Superintendent
Rebecca Friederichs	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Ar-We-Va Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Ar-We-Va Community School District, Westside, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Ar-We-Va Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated July 31, 2006 on our consideration of Ar-We-Va Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ar-We-Va Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other financial statements for the year ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

July 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Ar-We-Va Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,334,448 in fiscal 2005 to \$3,261,800 in fiscal 2006, while General Fund expenditures increased from \$3,258,124 in fiscal year 2005 to \$3,384,016 in fiscal 2006.
- The decrease in General Fund revenues was primarily attributable to a decrease in tuition income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and the purchase of a bus and SUV.
- The School Infrastructure Local Option Sales Tax is collected in Carroll and Crawford Counties. These monies are being used for improvements to district facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Ar-We-Va Community School District

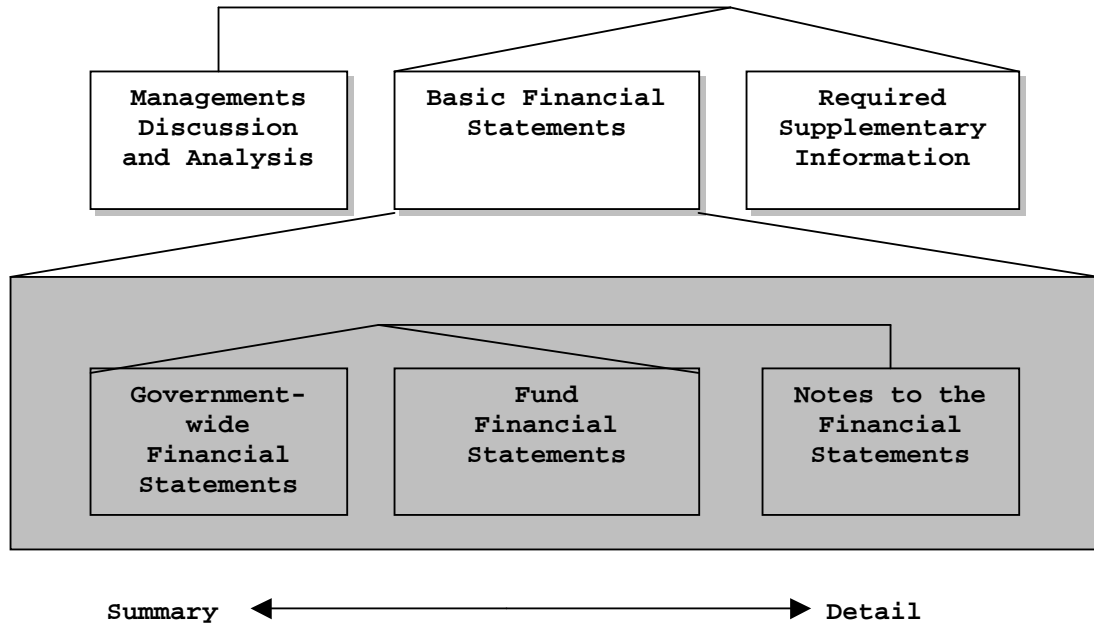


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Net Assets • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	2,495	2,607	34	24	2,529	2,631	-3.88%
Capital assets	437	359	6	8	443	367	20.71%
Total assets	<u>2,932</u>	<u>2,966</u>	<u>40</u>	<u>32</u>	<u>2,972</u>	<u>2,998</u>	<u>-0.87%</u>
Current liabilities	1,220	1,186	-	4	1,220	1,190	2.52%
Non-current liabilities	11	31	-	-	11	31	-64.52%
Total liabilities	<u>1,231</u>	<u>1,217</u>	<u>-</u>	<u>4</u>	<u>1,231</u>	<u>1,221</u>	<u>0.82%</u>
Net Assets							
Invested in capital assets, net of related debt	437	359	6	8	443	367	20.71%
Restricted	121	134	-	-	121	134	-9.70%
Unrestricted	<u>1,143</u>	<u>1,256</u>	<u>34</u>	<u>20</u>	<u>1,177</u>	<u>1,276</u>	<u>-7.76%</u>
Total net assets	<u>1,701</u>	<u>1,749</u>	<u>40</u>	<u>28</u>	<u>1,741</u>	<u>1,777</u>	<u>-2.03%</u>

Investment in capital assets increased over 20% as the District purchased two vehicles and installed a new gym floor during the year. Restricted assets decreased as the District used its local option sales tax monies for a variety of projects including roof repair and replacement. The unrestricted funds decreased as a result of using General Fund monies for the purchase of vehicles.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4						
Change in Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total School District	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$	\$	\$
Revenues:						
Program revenues:						
Charges for service and sales	124	241	83	84	207	325
Operating grants, contributions and restricted interest	668	678	79	76	747	754
General revenues:						
Property tax	1,117	1,098	-	-	1,117	1,098
Income surtax	77	144	-	-	77	144
Local option sales tax	183	134	-	-	183	134
Unrestricted state grants	1,419	1,482	-	-	1,419	1,482
Unrestricted investment earnings	26	11	-	-	26	11
Other	31	16	-	-	31	16
Total revenues	<u>3,645</u>	<u>3,804</u>	<u>162</u>	<u>160</u>	<u>3,807</u>	<u>3,964</u>
Program expenses:						
Governmental activities:						
Instruction	2,291	2,203	-	-	2,291	2,203
Support Services	1,097	1,088	-	-	1,097	1,088
Non-instructional programs	-	4	150	173	150	177
Other expenses	305	277	-	-	305	277
Total expenses	<u>3,693</u>	<u>3,572</u>	<u>150</u>	<u>173</u>	<u>3,843</u>	<u>3,745</u>
Change in net assets	<u>(48)</u>	<u>232</u>	<u>12</u>	<u>(13)</u>	<u>(36)</u>	<u>219</u>

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,645,643 and expenses were \$3,693,266.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5				
Total and Net Cost of Governmental Activities				
(Expressed in Thousands)				
	Total Cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$
Instruction	2,291	2,203	1,638	1,489
Support Services	1,097	1,088	1,085	1,071
Non-instructional programs	-	4	-	4
Other expenses	<u>305</u>	<u>277</u>	<u>178</u>	<u>88</u>
Totals	<u>3,693</u>	<u>3,572</u>	<u>2,901</u>	<u>2,652</u>

- The cost financed by users of the District's programs was \$123,796.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$549,316.
- The net cost of governmental activities was financed with \$1,116,442 in property tax, \$1,419,581 in state foundation aid, and \$25,679 in interest income.

Business-Type Activities

Revenues of the District's business type activities were \$162,153 and expenses were \$150,041. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Ar-We-Va Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,700,865, a three percent decrease under last year's ending fund balances of \$1,748,488. The primary reasons were decreased General Fund revenues and spending increases for infrastructure purposes.

Governmental Fund Highlights

- The District has implemented various methods to increase offerings to all students.
- With the available PPEL and Capital Projects dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities.
- A new gym floor and two new vehicles were purchased.

Proprietary Fund Highlights

The District's Nutrition Fund increased by over \$12,000. Cost control measures were implemented that resulted in decreased expenditures.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$26,000 less than budgeted receipts. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted by over \$1,800,000. Ar-We-Va Community School District budgets expenditures at the maximum authorized spending authority. The budget should exceed actual expenditures using this approach. Expenditures exceeded the amounts budgeted in the support services and other expenditures functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested over \$1.7 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was over \$86,000.

Long-Term Debt

The District's long-term debt consists of its early retirement program. Payments are made in the year following resignation.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed and money began to be received by the District in fiscal 2004. This will allow the District to maintain its facilities and purchase equipment items not otherwise affordable.
- The District's enrollment decreased by 16.8 students in fiscal 2006. Maintaining enrollment as well as adequate allowable growth will be critical in the coming years.

- The District has been active in pursuing options for increasing the educational opportunities for all of its students, particularly high school. These will hopefully save costs as well as make the District more attractive to students.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rebecca Friederichs, District Secretary, Ar-We-Va Community School District, 108 Clinton St, Westside, IA 51467.

Basic Financial Statements

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,154,748	31,931	1,186,679
Receivables:			
Property tax:			
Current year	16,936	-	16,936
Succeeding year	1,219,322	-	1,219,322
Income surtax - succeeding year	68,536	-	68,536
Due from other governments	35,524	-	35,524
Inventory	-	2,210	2,210
Capital assets, net of accumulated depreciation	437,352	6,362	443,714
Total assets	2,932,418	40,503	2,972,921
Liabilities			
Accounts payable	1,231	-	1,231
Deferred revenue:			
Succeeding year property tax	1,219,322	-	1,219,322
Long-term liabilities:			
Portion due within one year:			
Early retirement	11,000	-	11,000
Total liabilities	1,231,553	-	1,231,553
Net assets			
Invested in capital assets, net of related debt	437,352	6,362	443,714
Restricted for:			
Management levy	4,326	-	4,326
Physical plant and equipment levy	20,381	-	20,381
Capital projects	95,921	-	95,921
Unrestricted	1,142,885	34,141	1,177,026
Total net assets	1,700,865	40,503	1,741,368

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	2,291,524	123,796	529,993	(1,637,735)	-	(1,637,735)
Support services:						
Student services	53,940	-	-	(53,940)	-	(53,940)
Instructional staff services	34,705	-	-	(34,705)	-	(34,705)
Administration services	472,199	-	3,519	(468,680)	-	(468,680)
Operation and maintenance of plant services	274,312	-	-	(274,312)	-	(274,312)
Transportation services	261,492	-	7,979	(253,513)	-	(253,513)
	1,096,648	-	11,498	(1,085,150)	-	(1,085,150)
Other expenditures:						
AEA flowthrough	126,576	-	126,576	-	-	-
Facilities acquisition and construction	153,619	-	346	(153,273)	-	(153,273)
Depreciation (unallocated)*	24,899	-	-	(24,899)	-	(24,899)
	305,094	-	126,922	(178,172)	-	(178,172)
Total governmental activities	3,693,266	123,796	668,413	(2,901,057)	-	(2,901,057)

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Nutrition services	150,041	83,501	78,652	-	12,112	12,112
Total	3,843,307	207,297	747,065	(2,901,057)	12,112	(2,888,945)
General revenues:						
Property tax levied for:						
General purposes				1,033,568	-	1,033,568
Management				50,001	-	50,001
Capital outlay				32,873	-	32,873
Income surtax				77,506	-	77,506
Local option sales tax				182,973	-	182,973
Unrestricted state grants				1,419,581	-	1,419,581
Unrestricted investment earnings				25,679	-	25,679
Other				31,253	-	31,253
Total general revenue				2,853,434	-	2,853,434
Change in net assets				(47,623)	12,112	(35,511)
Net assets beginning of year				1,748,488	28,391	1,776,879
Net assets end of year				1,700,865	40,503	1,741,368

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	995,472	79,756	79,520	1,154,748
Receivables:				
Property tax:				
Current year	15,683	-	1,253	16,936
Succeeding year	1,060,193	-	159,129	1,219,322
Income surtax - succeeding year	68,536	-	-	68,536
Due from other governments	19,359	16,165	-	35,524
Total assets	<u>2,159,243</u>	<u>95,921</u>	<u>239,902</u>	<u>2,495,066</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	1,231	-	-	1,231
Deferred revenue:				
Succeeding year property tax	1,060,193	-	159,129	1,219,322
Succeeding year income surtax	68,536	-	-	68,536
Total liabilities	<u>1,129,960</u>	<u>-</u>	<u>159,129</u>	<u>1,289,089</u>
Fund balances:				
Reserved for capital projects	-	95,921	-	95,921
Unreserved fund balance	<u>1,029,283</u>	<u>-</u>	<u>80,773</u>	<u>1,110,056</u>
Total fund balance	<u>1,029,283</u>	<u>95,921</u>	<u>80,773</u>	<u>1,205,977</u>
Total liabilities and fund balances	<u>2,159,243</u>	<u>95,921</u>	<u>239,902</u>	<u>2,495,066</u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 1,205,977
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as a revenue until received in the governmental funds, however it is shown as a revenue in the Statement of Activities in the year of levy, thus no deferred revenue is shown in the Statement of Net Assets	68,536
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	437,352
Long-term liabilities, including early retirement, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(11,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,700,865</u></u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,112,229	182,973	82,874	1,378,076
Tuition	90,374	-	-	90,374
Other	90,354	324	118,773	209,451
State sources	1,711,038	-	54	1,711,092
Federal sources	257,805	-	-	257,805
Total revenues	<u>3,261,800</u>	<u>183,297</u>	<u>201,701</u>	<u>3,646,798</u>
Expenditures:				
Current:				
Instruction	<u>2,172,229</u>	<u>-</u>	<u>119,295</u>	<u>2,291,524</u>
Support services:				
Student services	53,940	-	-	53,940
Instructional staff services	34,705	-	-	34,705
Administration services	427,659	-	64,040	491,699
Operation and maintenance of plant services	274,312	-	-	274,312
Transportation services	299,595	-	-	299,595
	<u>1,090,211</u>	<u>-</u>	<u>64,040</u>	<u>1,154,251</u>
Other expenditures:				
AEA flowthrough	126,576	-	-	126,576
Facilities acquisition and construction	-	204,658	14,564	219,222
	<u>126,576</u>	<u>204,658</u>	<u>14,564</u>	<u>345,798</u>
Total expenditures	<u>3,389,016</u>	<u>204,658</u>	<u>197,899</u>	<u>3,791,573</u>
Excess (deficiency) of revenues over (under) expenditures	(127,216)	(21,361)	3,802	(144,775)
Fund balances beginning of year	<u>1,156,499</u>	<u>117,282</u>	<u>76,971</u>	<u>1,350,752</u>
Fund balances end of year	<u>1,029,283</u>	<u>95,921</u>	<u>80,773</u>	<u>1,205,977</u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ (144,775)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. (1,155)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 165,064	
Depreciation expense	<u>(86,257)</u>	78,807

Early retirement benefits accrued in the current year increase long-term liabilities. (10,000)

Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 29,500

Change in net assets of governmental activities (Exhibit B) \$ (47,623)

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>83,501</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	41,016
Benefits	5,274
Supplies	102,018
Depreciation	<u>1,733</u>
Total operating expenses	<u>150,041</u>
Operating (loss)	<u>(66,540)</u>
Non-operating revenues:	
State sources	2,366
Federal sources	76,199
Interest income	<u>87</u>
	<u>78,652</u>
Changes in net assets	12,112
Net assets beginning of year	<u>28,391</u>
Net assets end of year	<u><u>40,503</u></u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	83,501
Cash payments to employees for services	(46,290)
Cash payments to suppliers for goods or services	<u>(97,299)</u>
Net cash (used in) operating activities	<u>(60,088)</u>
Cash flows from non-capital financing activities:	
State grants received	2,366
Federal grants received	<u>65,661</u>
Net cash provided by non-capital financing activities	<u>68,027</u>
Cash flows from investing activities:	
Interest on investments	<u>87</u>
Net increase in cash and cash equivalents	8,026
Cash and cash equivalents beginning of year	<u>23,905</u>
Cash and cash equivalents end of year	<u><u>31,931</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(66,540)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,733
Commodities used	10,538
(Increase) in inventory	(2,210)
(Decrease) in accounts payable	<u>(3,609)</u>
	<u>(60,088)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>31,931</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$10,538.

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Ar-We-Va Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Arcadia, Vail and Westside, Iowa, and agricultural area in Carroll and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Ar-We-Va Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Ar-We-Va Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Carroll and Crawford Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary fund, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amounts budgeted in the support services and other expenditures functions.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 54,700	-	-	54,700
Capital assets being depreciated:				
Site Improvements	103,140	65,603	32,990	135,753
Buildings	944,636	-	-	944,636
Furniture and Equipment	467,428	99,461	-	566,889
Total capital assets being depreciated	1,515,204	165,064	32,990	1,647,278
Less accumulated depreciation for:				
Site Improvements	103,140	3,280	32,990	73,430
Buildings	820,687	14,668	-	835,355
Furniture and Equipment	287,532	68,309	-	355,841
Total accumulated depreciation	1,211,359	86,257	32,990	1,264,626
Total capital assets being depreciated, net	303,845	78,807	-	382,652
Governmental activities, capital assets, net	\$ 358,545	78,807	-	437,352

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	44,154	0	-	44,154
Less accumulated depreciation	<u>36,059</u>	<u>1,733</u>	<u>-</u>	<u>37,792</u>
Business type activities capital assets, net	<u>\$ 8,095</u>	<u>(1,733)</u>	<u>-</u>	<u>6,362</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

61,358

24,899

\$ 86,257

Business Type activities:

Food service operations

\$ 1,733

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$126,771, \$122,861, and \$115,319 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$126,576 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Early <u>Retirement</u>
Balance beginning of year	\$30,500
Additions	10,000
Reductions	<u>29,500</u>
Balance end of year	<u>\$11,000</u>

Early Retirement - The District offers a voluntary early retirement to teachers. To qualify, a teacher must have been employed at Ar-We-Va Community School District for a minimum length of 15 years at full time, and also be at least 55 years of age. If a teacher met those requirements and chose to retire, the Ar-We-Va Community School District offers him or her \$10,000 to be paid in two installments of \$5,000 on July 1 and February 1 immediately following the year of resignation. A liability has been recorded in the General Long-Term Debt Account Group representing the District's Commitment to fund non-current early retirement.

Required Supplementary Information

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,677,901	83,588	1,761,489	1,733,924	1,733,924	27,565
State sources	1,711,092	2,366	1,713,458	1,796,798	1,796,798	(83,340)
Federal sources	257,805	76,199	334,004	305,000	305,000	29,004
Total revenues	<u>3,646,798</u>	<u>162,153</u>	<u>3,808,951</u>	<u>3,835,722</u>	<u>3,835,722</u>	<u>(26,771)</u>
Expenditures:						
Instruction	2,291,524	-	2,291,524	3,325,745	3,325,745	1,034,221
Support services	1,207,350	-	1,207,350	1,112,000	1,112,000	(95,350)
Non-instructional programs	-	150,041	150,041	175,000	175,000	24,959
Other expenditures	292,699	-	292,699	137,125	137,125	(155,574)
Total expenditures	<u>3,791,573</u>	<u>150,041</u>	<u>3,941,614</u>	<u>4,749,870</u>	<u>4,749,870</u>	<u>808,256</u>
Excess (deficiency) of revenues over (under) expenditures	(144,775)	12,112	(132,663)	(914,148)	(914,148)	781,485
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(144,775)	12,112	(132,663)	(914,148)	(914,148)	781,485
Balance beginning of year	<u>1,350,752</u>	<u>28,391</u>	<u>1,379,143</u>	<u>1,325,935</u>	<u>1,325,935</u>	<u>53,208</u>
Balance end of year	<u><u>1,205,977</u></u>	<u><u>40,503</u></u>	<u><u>1,246,480</u></u>	<u><u>411,787</u></u>	<u><u>411,787</u></u>	<u><u>834,693</u></u>

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functions expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures exceeded the amounts budgeted in the support services and other expenditures functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash	3,567	56,066	19,887	79,520
Property tax receivable:				
Current year	759	-	494	1,253
Succeeding year	<u>125,000</u>	<u>-</u>	<u>34,129</u>	<u>159,129</u>
Total assets	<u>129,326</u>	<u>56,066</u>	<u>54,510</u>	<u>239,902</u>
Liabilities and Fund Balance				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	<u>125,000</u>	<u>-</u>	<u>34,129</u>	<u>159,129</u>
	<u>125,000</u>	<u>-</u>	<u>34,129</u>	<u>159,129</u>
Fund balance:				
Unreserved fund balance	<u>4,326</u>	<u>56,066</u>	<u>20,381</u>	<u>80,773</u>
	<u>4,326</u>	<u>56,066</u>	<u>20,381</u>	<u>80,773</u>
Total liabilities and fund balance	<u>129,326</u>	<u>56,066</u>	<u>54,510</u>	<u>239,902</u>

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	50,001	-	32,873	82,874
Other	3,487	115,286	-	118,773
State sources	32	-	22	54
Total revenues	<u>53,520</u>	<u>115,286</u>	<u>32,895</u>	<u>201,701</u>
Expenditures:				
Instruction:	-	119,295	-	119,295
Support services:				
Student support services	-	-	-	-
Instructional support services	-	-	-	-
Administration services	64,040	-	-	64,040
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Other expenditures:				
Facility acquisition and construction services	-	-	14,564	14,564
Total expenditures	<u>64,040</u>	<u>119,295</u>	<u>14,564</u>	<u>197,899</u>
Excess (deficiency) of revenues over (under) expenditures	(10,520)	(4,009)	18,331	3,802
Fund balances beginning of year	<u>14,846</u>	<u>60,075</u>	<u>2,050</u>	<u>76,971</u>
Balance end of year	<u>4,326</u>	<u>56,066</u>	<u>20,381</u>	<u>80,773</u>

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Activity Resale	199	913	1,112	-
Athletics	21,576	46,201	40,063	27,714
Concessions	8,896	9,853	12,637	6,112
Cheerleaders	1,122	220	1,342	-
Class of 2005	647	-	(475)	1,122
Class of 2006	629	337	544	422
Class of 2007	39	9,500	9,539	-
Class of 2008	24	93	(168)	285
Dance Team	2,798	2,945	2,013	3,730
Elementary	11,162	4,818	10,877	5,103
FCCLA	152	1,506	1,119	539
HS Annual	6,295	10,951	10,923	6,323
Honor Society	1,103	717	1,029	791
Industrial Arts	595	654	858	391
Music	159	1,526	1,685	-
School Plays	578	2,570	2,237	911
Student Council	1,658	6,361	6,473	1,546
Sixth Grade/Middle School	1,939	16,121	17,437	623
Spirit Club	454	-	-	454
Weight Room	50	-	50	-
	<u>60,075</u>	<u>115,286</u>	<u>119,295</u>	<u>56,066</u>
Total	<u>60,075</u>	<u>115,286</u>	<u>119,295</u>	<u>56,066</u>

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source
All Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
Property taxes	1,087,073	1,066,940	1,240,683	1,168,104
Income surtax	78,661	73,868	68,959	70,069
Local option sales tax	182,973	133,870	32,926	-
Utility tax replacement excise tax	29,369	30,322	24,121	31,054
	<u>1,378,076</u>	<u>1,305,000</u>	<u>1,366,689</u>	<u>1,269,227</u>
State sources:				
State foundation aid	1,419,581	1,481,318	1,240,449	1,258,033
Instructional support	13,025	14,238	12,044	13,383
Shelter care	13,039	5,258	-	-
Educational Excellence Program:				
Phase I	17,945	19,153	19,567	21,597
Phase II	33,553	34,663	33,429	35,315
Phase III	-	-	-	8,775
Teacher mentoring	2,600	2,600	1,300	-
Non-public transportation aid	7,979	14,490	16,245	17,008
Non-public textbook aid	-	-	-	44
Revenue in lieu of taxes - military credit	719	658	1,319	797
AEA flow-through	126,576	137,685	125,360	135,019
Iowa Early Intervention Block Grant	19,757	22,079	20,366	24,005
Teacher Quality Salary Improvement	40,467	36,123	32,902	30,575
Professional development	13,228	-	-	-
Evaluator Training	-	2,000	-	1,000
Vocational aid	2,623	6	2,152	-
Other state aid	-	75	-	-
Lunch and breakfast program claims	2,366	1,021	2,550	2,780
	<u>1,713,458</u>	<u>1,771,367</u>	<u>1,507,683</u>	<u>1,548,331</u>
Federal sources:				
Title I Grants to Local Educational Agencies	57,953	61,871	65,905	65,206
Safe and Drug Free School and Communities -				
State Grants	2,401	2,578	2,514	3,624
State Grants for Innovative Programs	1,408	2,240	6,055	-
Grants for Assessments and Related Activities	2,478	2,556	2,466	-
Improving Teacher Quality - State Grants	17,637	17,922	17,719	20,077
Vocational Education - Basic Grants to States	-	-	-	4,620
Eisenhower Math and Science Grants	-	-	-	1,280
Title XIX Assistance	115,879	70,939	77,427	35,888
Rural Education Achievement Program	35,010	34,406	32,159	32,642
Special Education - Grants to States	25,039	24,552	18,568	-
Other federal aid	-	-	-	12,778
National School Lunch and Breakfast Programs	65,661	67,863	66,031	65,290
Food Distribution (non-cash)	10,538	7,437	9,387	10,547
	<u>334,004</u>	<u>292,364</u>	<u>298,231</u>	<u>251,952</u>
Total	<u>3,425,538</u>	<u>3,368,731</u>	<u>3,172,603</u>	<u>3,069,510</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Ar-We-Va Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Ar-We-Va Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 31, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ar-We-Va Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ar-We-Va Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ar-We-Va Community School District and other parties to whom Ar-We-Va Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Ar-We-Va Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

July 31, 2006

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the support services and other expenditures functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

06-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

06-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

06-II-G Board Minutes - No transactions requiring Board approval, which had not been approved by the Board were noted.

06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

06-II-J Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2005 was understated. The District's certified enrollment count excluded 1 resident student on line 2 who was open enrolled out to another district. This resulted in Line 7 being understated by 1.0 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management to resolve this matter.

Conclusion - Response accepted.